

SUTTONS BAY PUBLIC SCHOOLS
SUTTONS BAY, MICHIGAN
AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2006

TABLE OF CONTENTS

	<u>PAGE</u>
Report of Independent Accountants	I
Management's Discussion and Analysis	II – VIII
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements:	
Balance Sheet – Governmental Funds	3
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	4
Fiduciary Fund	
Statement of Fiduciary Net Assets	5
Statement of Changes in Fiduciary Net Assets	6
Budgetary Comparison Schedules:	
General Fund	7
Notes to the Financial Statements	8 – 19
Other Supplemental Information	
Combining Statements – Nonmajor Funds:	
Combining Balance Sheet – Nonmajor Governmental Funds	20
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	21
Combining Balance Sheet – Special Revenue Fund	22
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Special Revenue Fund	23
Combining Balance Sheet – Debt Retirement Fund	24
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Debt Retirement Fund	25
Individual Schedules of Revenues, Expenditures and Other Financing Uses:	
Schedule 1 - General Fund - Schedule of Revenues	26
Schedule 2 - General Fund - Schedule of Expenditures	27 – 31
Other Supplemental Schedules:	
Schedule 3 - Trust and Agency Fund – Schedule of Receipts and Disbursements – Student Activities	32
Schedule 4 - – Private Purpose Trust Funds – Schedule of Revenue and Expenditures – Scholarship Fund	33
Schedule 5 - Schedule of Bond Principal and Interest Requirements	34 – 35



Lewis & Knopf, CPAs, P.C.

Serving You with Trust and Integrity

July 25, 2006

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Suttons Bay Public Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Suttons Bay Public Schools, as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Suttons Bay Public Schools' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Suttons Bay Public Schools as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report under separate cover dated July 25, 2006 on our consideration of the School District's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis information on pages II - VIII, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Suttons Bay Public Schools' basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Lewis & Knopf PC
LEWIS & KNOF, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

SUTTONS BAY PUBLIC SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

The Administration's Discussion and Analysis, a requirement of GASB 34, is intended to be the Suttons Bay Public Schools' Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2006.

Generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District Wide Financial Statements and Fund Financial Statements.

Fund Financial Statements:

The fund level financial statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Service and Athletics Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

Governmental funds – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

District Wide Financial Statements:

The District wide financial statements are full accrual basis statements. They report all of the District's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and obligations of the District are reported in the Statement of Net Assets of the District wide financial statements.

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

SUTTONS BAY PUBLIC SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

District Wide Financial Statements: (Continued)

These two statements report the Suttons Bay Public Schools net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the School District’s financial health or financial position. Over time, increases or decreased in the School District’s net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District’s operating results. However, the School District’s goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompasses all of the School District’s services, including instruction, support services, community services, athletics, and food services. Property taxes, unrestricted State aid (foundation allowance revenue), and State and federal grants finance most of these activities.

The School District as Trustee – Reporting the School District’s Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District’s fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the School District’s other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

SUMMARY OF NET ASSETS:

The following summarizes the net assets at the fiscal years ended June 30, 2006 and 2005:

	<u>NET ASSETS SUMMARY</u>	
	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Current Assets	\$2,056,099	\$2,228,973
Non-Current Assets	<u>11,241,315</u>	<u>11,634,423</u>
<u>TOTAL ASSETS</u>	<u>\$13,297,414</u>	<u>\$13,863,396</u>
<u>LIABILITIES</u>		
Current Liabilities	\$1,880,748	\$2,123,577
Long-Term Liabilities	<u>10,796,694</u>	<u>11,876,792</u>
Total Liabilities	\$12,677,442	\$14,000,369
<u>NET ASSETS</u>		
Invested in Capital Assets - Net of Related Debt	(484,380)	(1,255,971)
Restricted - Debt Service	187,930	140,285
Restricted - Capital Projects	144,383	92,626
Unrestricted	<u>772,039</u>	<u>886,087</u>
Total Net Assets (Deficit)	<u>\$619,972</u>	<u>(\$136,973)</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$13,297,414</u>	<u>\$13,863,396</u>

SUTTONS BAY PUBLIC SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

RESULTS OF OPERATIONS:

For the fiscal years ended June 30, 2006 and 2005, the District wide results of operations were:

	<u>2006</u>	<u>2005</u>
<u>REVENUES</u>		
<u>General Revenues:</u>		
Property Taxes Levied for General Operations	\$2,070,497	\$1,874,585
Property Taxes Levied for Debt Service	1,584,216	1,574,168
Property Taxes Levied for Capital Projects	80,498	122,466
State of Michigan Unrestricted Foundation Aid	4,331,610	4,675,610
Other General Revenues	<u>157,319</u>	<u>119,679</u>
Total General Revenues	\$8,224,140	\$8,366,508
<u>Operating Grants:</u>		
Federal	896,101	1,113,898
State of Michigan	601,243	587,653
Other Operating Grants	<u>303,842</u>	<u>137,296</u>
Total Operating Grants	\$1,801,186	\$1,838,847
<u>Charges for Services:</u>		
Food Service	136,212	133,368
Athletics	84,349	79,067
Other Charges for Services	<u>199,073</u>	<u>390,070</u>
Total Charges for Services	\$419,634	\$602,505
Total Revenues	\$10,444,960	\$10,807,860
<u>EXPENSES</u>		
Instruction & Instructional Support	4,964,795	4,782,451
Support Services	3,133,655	3,169,967
Community Services	150,266	186,118
Food Service	292,455	278,731
Athletics	298,124	299,659
Interest on Long-Term Debt	552,278	689,812
Depreciation	<u>296,442</u>	<u>294,443</u>
Total Expenses	\$9,688,015	\$9,701,181
<u>INCREASE IN NET ASSETS</u>	\$756,945	\$1,106,679
<u>BEGINNING NET ASSETS (DEFICIT)</u>	<u>(136,973)</u>	<u>(1,243,652)</u>
<u>ENDING NET ASSETS (DEFICIT)</u>	<u><u>\$619,972</u></u>	<u><u>(\$136,973)</u></u>

SUTTONS BAY PUBLIC SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

GOVERNMENT- WIDE FINANCIAL ANALYSIS

Analysis of Financial Position:

During the year ended June 30, 2006, the District's Total Net Assets increased by \$756,945 to a total of \$619,972. The largest portion of the net assets are the districts investment in capital assets net of related debt. Net assets (invested in capital assets, net of related debt) increased by \$771,591 during the year due to purchases of new capital assets and principal payments on related debt exceeding depreciation. The districts Unrestricted Net Assets decreased by \$114,048 during the year and the restricted portion of the net assets increased by \$99,402. The restricted Net Assets consist of the restricted debt retirement funds that may only be used to pay bonded debt and restricted capital projects funds that may only be used to fund capital projects. The unrestricted net assets may be used to fund the educational services provided to students.

Analysis of Results of Operations

The District's overall revenues exceeded its expenses for the year by \$756,945. The total revenues decreased by \$362,900 or 3% over last years amounts. Major changes in revenue were due to decreases in state aid, impact aid. Expenditures decreased by \$13,166. Major changes were due to reduced personnel costs and interest expense.

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS

Analysis of Financial Position

The focus of the District's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the district's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a governments net resources available for spending at the end of the fiscal year. An analysis of changes for the governmental funds is as follows:

General Fund

The district's general fund is the chief operating fund of the district. Fund balance for the general fund decreased by \$141,258 during the year with the decrease coming primarily in cash. Revenues for the year decreased by \$384,500 over last years amounts; primarily from decreases in state aid and impact aid. Expenditures and other financing uses increased by \$95,200 due to increases in salaries and fringe benefits. The major source of general fund revenues is state aid and taxes. An analysis of them is as follows:

1. State of Michigan Unrestricted Aid (Net State Foundation Grant)
The State of Michigan aid, unrestricted, is determined with the following variables:
 - a. State of Michigan State Aid Act per student foundation allowance
 - b. Student Enrollment - Blended at 75 percent of current year's fall count and 25 percent of prior year's winter count
 - c. The District's non-homestead tax levy
2. Per Student, Foundation Allowance:
Annually, the State of Michigan establishes the per student foundation allowance. The Suttons Bay Public Schools foundation allowance was \$6,875 per student for the 2004-2005 school year.
3. Student Enrollment:
The District's student enrollment for the fall count of 2005-2006 was 957 students. A decrease of 45 students from the prior year.

SUTTONS BAY PUBLIC SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS (Continued)

Analysis of Financial Position (Continued)

General Fund (Continued)

4. Property Taxes Levied For General Operations (General Fund Non-Homestead Taxes)

The District levies 18 mills of property taxes for operations (General Fund) on Non-Homestead Properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

The District's non-homestead property tax revenue for the 2005-2006 fiscal year was \$2,071,226. An increase of \$255,266 from the prior year.

GENERAL FUND BUDGETARY HIGHLIGHTS:

GENERAL FUND BUDGET VS. ACTUAL

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Original & Final Budget %	Variance Actual & Final Budget %
Revenue	\$8,312,716	\$8,446,227	\$8,363,012	1.61	0.99
Expenditures	8,492,005	8,607,906	8,504,270	1.36	1.20
<u>TOTAL</u>	<u>(\$179,289)</u>	<u>(\$161,679)</u>	<u>(\$141,258)</u>		

ANALYSIS OF BUDGETS:

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, Suttons Bay Public Schools amends its budget during the school year. For fiscal year June 30, 2006, the budget was amended in June, 2006. The June, 2006 budget amendment was the final budget for the fiscal year. There were no significant changes between the original and final budget. There were no significant variations between the actual and final budget.

SUTTONS BAY PUBLIC SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

CAPITAL ASSET AND DEBT ADMINISTRATION

A. Debt, Principal Payments

The District made principal payments on bonded, long term debt obligations that reduced the amount of the District's long term liabilities as follows:

	Principal Balance 7-01-05	Increases 6-30-06	Principal Payments 6-30-06	Principal Balance 6-30-06
Bonds Payable	\$12,593,927	\$5,095,000	\$6,033,016	\$11,655,911
Contracts & Loan Payable	296,467	0	226,683	69,784
Sick Days Payable	13,554	48,356	0	61,910
<u>Total Long-Term Bond Obligations</u>	<u>\$12,903,948</u>	<u>\$5,143,356</u>	<u>\$6,259,699</u>	<u>\$11,787,605</u>

Significant changes were due to the issuance of the 2005 refunding bonds during the year.

B. Capital Assets

The district's net investment in capital assets decreased by \$393,108 during the fiscal year. This can be summarized as follows:

	Balance 7-1-05	Additions	Deductions	Balance 6-30-05
Capital Assets	\$16,159,068	\$0	\$0	\$16,159,068
Less: Accumulated Depreciation	<u>(4,524,645)</u>	<u>(393,108)</u>	<u>0</u>	<u>(4,917,753)</u>
<u>Net Investment Capital Outlay</u>	<u>\$11,634,423</u>	<u>(\$393,108)</u>	<u>\$0</u>	<u>\$11,241,315</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

* Foundation Allowance

The Board of Education and Administration agreed to an estimate of a foundation allowance of \$7,100 per pupil for the 06-07 fiscal year based on information received from various educational organizations such as Michigan Association of School Business Officials, Michigan Association of School Administrators, and the Michigan Association of School Boards as well as discussions local state representatives. The political debate regarding the funding of public education, the current economic climate in the State of Michigan and the gubernatorial election will all affect this estimate before the final foundation allowance is known.

* Retirement Rates

The continuing cost of health insurance to current and potential retirees continues to drive the rate increases the Michigan School Personnel Retirement System recommends to the legislature for approval. The rate is anticipated to increase to 17.74% in 06-07 from 16.34% in 05-06.

SUTTONS BAY PUBLIC SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET (Continued)

- * The Suttons Bay Public Schools 2006/2007 adopted budget is as follows:

<u>REVENUE</u>	\$8,214,617
<u>EXPENDITURES</u>	<u>8,533,621</u>
<u>NET (UNDER) BUDGET</u>	<u><u>(\$319,004)</u></u>

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, Suttons Bay Public Schools.

SUTTONS BAY PUBLIC SCHOOLS - SUTTONS BAY, MICHIGAN
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2006

	<u>Governmental Activities</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash and Cash Equivalents	\$497,025
Investments	601,841
Accounts Receivable	58,566
Due from Other Governmental Units	895,754
Inventory	2,913
Total Current Assets	<u>\$2,056,099</u>
<u>NON-CURRENT ASSETS</u>	
Capital Assets	16,159,068
Less: Accumulated Depreciation	<u>(4,917,753)</u>
Total Noncurrent Assets	<u>\$11,241,315</u>
<u>TOTAL ASSETS</u>	\$13,297,414
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Accounts Payable	56,406
Accrued Expense	296,905
Salaries Payable	500,430
Deferred Revenue	36,096
Current Portion of Long-Term Obligations	990,911
Total Current Liabilities	<u>\$1,880,748</u>
<u>NON-CURRENT LIABILITIES</u>	
Noncurrent Portion of Long-Term Obligations	<u>10,796,694</u>
<u>TOTAL LIABILITIES</u>	\$12,677,442
<u>NET ASSETS</u>	
<u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	(484,380)
Restricted for:	
Debt Retirement	187,930
Capital Projects	144,383
Unrestricted	<u>772,039</u>
<u>TOTAL NET ASSETS</u>	<u>\$619,972</u>

See accompanying notes to the basic financial statements.

SUTTONS BAY PUBLIC SCHOOLS - SUTTONS BAY, MICHIGAN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue & Change in Net Assets</u>
		<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	
Governmental Activities:				
Instruction	\$4,964,795	\$26,704	\$1,348,967	(\$3,589,124)
Support Services	3,133,655	61,313	303,842	(2,768,500)
Community Services	150,266	111,056	0	(39,210)
Food Service	292,455	136,212	148,377	(7,866)
Athletics	298,124	84,349	0	(213,775)
Interest - Long-Term Obligations	552,278	0	0	(552,278)
Depreciation - Unallocated	296,442	0	0	(296,442)
<u>TOTALS</u>	<u>\$9,688,015</u>	<u>\$419,634</u>	<u>\$1,801,186</u>	<u>(\$7,467,195)</u>
General Revenues:				
Taxes:				
Property Taxes, Levied for General Purposes				3,735,211
State Aid				4,331,610
Investment Earnings				107,985
Grants and Contributions Not Restricted to				
Specific Programs				7,375
Miscellaneous				41,959
Total General Revenues and Transfers				<u>\$8,224,140</u>
Change in Net Assets				<u>\$756,945</u>
Net Assets - Beginning (Deficit)				<u>(136,973)</u>
<u>Net Assets - Ending</u>				<u>\$619,972</u>

See accompanying notes to the basic financial statements.

SUTTONS BAY PUBLIC SCHOOLS - SUTTONS BAY, MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF JUNE 30, 2006

	General Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>			
Cash and Cash Equivalents	\$133,351	\$363,674	\$497,025
Investments	601,841	0	601,841
Accounts Receivable	58,209	357	58,566
Due from Other Governmental Units	893,741	2,013	895,754
Due from Other Funds	3,020	0	3,020
Inventory	1,453	1,460	2,913
<u>TOTAL ASSETS</u>	<u>\$1,691,615</u>	<u>\$367,504</u>	<u>\$2,059,119</u>
<u>LIABILITIES</u>			
Accounts Payable	\$40,758	\$15,648	\$56,406
Due to Other Funds	0	3,020	3,020
Accrued Expenses	195,819	0	195,819
Salaries Payable	500,430	0	500,430
Deferred Revenue	35,304	792	36,096
Total Liabilities	\$772,311	\$19,460	\$791,771
<u>FUND BALANCES</u>			
Reserved For:			
Inventory	1,453	1,460	2,913
Debt Retirement	0	187,930	187,930
Capital Projects	0	144,383	144,383
Unreserved:			
Undesignated, Reported In:			
General Fund	917,851	0	917,851
School Service Funds	0	14,271	14,271
Total Fund Balances	\$919,304	\$348,044	\$1,267,348
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$1,691,615</u>	<u>\$367,504</u>	<u>\$2,059,119</u>

See accompanying notes to the basic financial statements.

SUTTONS BAY PUBLIC SCHOOLS - SUTTONS BAY, MICHIGAN
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
AS OF JUNE 30, 2006

Total Governmental Fund Balances:			\$1,267,348
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$16,159,068 and the accumulated depreciation is \$4,917,753			11,241,315
Accrued Interest on Long-Term Debt			(101,086)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:			
Bonds Payable		11,655,911	
Contracts Payable		69,784	
Sick Days Payable		61,910	
Total			<u>(11,787,605)</u>
<u>TOTAL NET ASSETS -</u>			
<u>GOVERNMENTAL ACTIVITIES</u>			<u>\$619,972</u>

SUTTONS BAY PUBLIC SCHOOLS - SUTTONS BAY, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	General	Other	Total
	Fund	Governmental	Governmental
	Funds	Funds	Funds
<u>REVENUES</u>			
Local Sources	\$2,455,601	\$1,933,571	\$4,389,172
Intermediate Sources	119,482	0	119,482
State Sources	4,922,111	10,742	4,932,853
Federal Sources	758,466	137,635	896,101
Total Revenues	\$8,255,660	\$2,081,948	\$10,337,608
<u>EXPENDITURES</u>			
Current:			
Instruction	4,959,965	0	4,959,965
Student Services	444,146	0	444,146
Instructional Support	234,150	0	234,150
General Administration	202,474	0	202,474
School Administration	610,884	0	610,884
Business Administration	183,708	0	183,708
Operation & Maintenance of Plant	773,905	0	773,905
Transportation	458,845	0	458,845
Support Services - Other	208,084	0	208,084
Community Services	150,266	0	150,266
Food Service	0	578,716	578,716
Debt Service	0	1,572,301	1,572,301
Capital Projects	0	33,454	33,454
Total Expenditures	\$8,226,427	\$2,184,471	\$10,410,898
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	\$29,233	(\$102,523)	(\$73,290)
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers from (to) Other Funds	(195,484)	195,484	0
Other Transfers	24,993	0	24,993
Total Other Financing Sources (Uses)	(\$170,491)	\$195,484	\$24,993
Net Change in Fund Balance	(\$141,258)	\$92,961	(\$48,297)
<u>FUND BALANCE - BEGINNING</u>	1,060,562	255,083	1,315,645
<u>FUND BALANCE - ENDING</u>	\$919,304	\$348,044	\$1,267,348

See accompanying notes to the basic financial statements.

SUTTONS BAY PUBLIC SCHOOLS - SUTTONS BAY, MICHIGAN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

Total net change in fund balances - governmental funds	(\$48,297)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.	(393,108)
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Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments reported as expenditures in the governmental funds.	6,259,699
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Loan Proceeds are shown as revenue in the governmental funds, but the proceeds increase long-term liabilities in the statement of net assets. This is the amount of proceeds reported as revenue in the governmental funds.	(5,095,000)
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(Increase) in accrued compensated absences	(48,356)
--	----------

Change in accrued interest on long-term liabilities	<u>82,007</u>
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<u>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</u>	<u>\$756,945</u>
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SUTTONS BAY PUBLIC SCHOOLS - SUTTONS BAY, MICHIGAN
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
AS OF JUNE 30, 2006

	Trust & Agency	Private Purpose Trusts	Total
<u>ASSETS</u>			
Cash and Cash Equivalents	\$216,111	\$402	\$216,513
<u>TOTAL ASSETS</u>	\$216,111	\$402	\$216,513
<u>LIABILITIES</u>			
Due to Student Groups	216,111	0	216,111
<u>NET ASSETS - HELD IN TRUST FOR OTHERS</u>	<u>\$0</u>	<u>\$402</u>	<u>\$402</u>

See accompanying notes to the basic financial statements.

SUTTONS BAY PUBLIC SCHOOLS - SUTTONS BAY, MICHIGAN
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Private Purpose Trusts</u>
<u>REVENUE</u>	
Donations	\$100
<u>EXPENDITURES</u>	
Scholarships	<u>713</u>
<u>CHANGE IN NET ASSETS</u>	(\$613)
<u>NET ASSETS - BEGINNING OF YEAR</u>	<u>1,015</u>
<u>NET ASSETS - END OF YEAR</u>	<u><u>\$402</u></u>

See accompanying notes to the basic financial statements.

SUTTONS BAY PUBLIC SCHOOLS - SUTTONS BAY, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>			
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>
<u>REVENUES</u>				
Local Sources	\$2,278,353	\$2,462,655	\$2,455,601	\$7,054
Intermediate Sources	96,959	145,941	119,482	26,459
State Sources	5,151,940	4,953,824	4,922,111	31,713
Federal Sources	785,464	750,006	758,466	(8,460)
Total Revenues	<u>\$8,312,716</u>	<u>\$8,312,426</u>	<u>\$8,255,660</u>	<u>\$56,766</u>
<u>EXPENDITURES</u>				
Current:				
Instruction	4,994,283	4,985,133	4,959,965	25,168
Student Services	397,379	461,959	444,146	17,813
Instructional Support	250,000	243,642	234,150	9,492
General Administration	338,779	209,244	202,474	6,770
School Administration	636,295	611,126	610,884	242
Business Administration	200,000	183,715	183,708	7
Operation & Maintenance of Plant	779,826	776,622	773,905	2,717
Transportation	502,097	465,127	458,845	6,282
Support Services - Other	210,500	210,911	208,084	2,827
Community Services	182,846	180,790	150,266	30,524
Total Expenditures	<u>\$8,492,005</u>	<u>\$8,328,269</u>	<u>\$8,226,427</u>	<u>\$101,842</u>
Excess of Revenues Over Expenditures	<u>(\$179,289)</u>	<u>(\$15,843)</u>	<u>\$29,233</u>	<u>(\$45,076)</u>
<u>OTHER FINANCING SOURCES (USES)</u>	<u>0</u>	<u>(145,836)</u>	<u>(170,491)</u>	<u>(24,655)</u>
Net Change in Fund Balance	<u>(\$179,289)</u>	<u>(\$161,679)</u>	<u>(\$141,258)</u>	<u>(\$69,731)</u>
<u>FUND BALANCE - BEGINNING</u>			<u>1,060,562</u>	
<u>FUND BALANCE - ENDING</u>			<u>\$919,304</u>	

See accompanying notes to the basic financial statements.

SUTTONS BAY PUBLIC SCHOOLS - SUTTONS BAY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

1) REPORTING ENTITY

The accompanying basic financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing arrangements. Based on application of the criteria, the entity does not contain component units.

The District receives funding from local, state, federal and interdistrict government sources and must comply with the accompanying requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" body that has separate legal standing and is fiscally independent of the governmental entities. As such, the Board of Education has decision-making authority, the authority to levy taxes, and determine its budget, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Suttons Bay Public Schools conform to generally accepted accounting principles as applicable to school districts. The following is a summary of the significant accounting policies:

In June 1999 the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. Certain of the significant changes in the Statement include the following:

A Management Discussion and Analysis (MD&A) section to provide an analysis of the District’s overall financial position and results of operations.

Financial statements prepared with full accrual accounting for all of the District’s activities.

- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements and notes to the financial statements.

A) BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The District’s basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District’s major funds). The government-wide financial statements categorize primary activities as either governmental or business type. All of the District’s activities are classified as governmental activities. Fiduciary funds are not included in the government-wide financial statements.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis and is reported on a full-accrual economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District’s net assets are reported in three parts: invested in capital assets net of related debt; restricted net assets; and unrestricted net assets. The District first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the District’s functions. General government revenues also support the functions. The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants. The net costs by function are normally covered by general revenue (property taxes, state and federal sources, interest income, etc.).

The District does not allocate indirect costs. Inter-fund transactions have been eliminated in the government-wide financial statements.

SUTTONS BAY PUBLIC SCHOOLS - SUTTONS BAY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B) BASIC FINANCIAL STATEMENTS - FUND FINANCIAL STATEMENTS

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the general-purpose financial statements in this report, into five generic fund types in two broad fund categories as follows:

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of the District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund

The General Fund is used to record the general operations of the District pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Special Revenue Funds

Special Revenue Funds are used to segregate the transactions of particular activities from regular revenue and expenditure accounts. The District maintains full control of these funds. The District maintains two school service funds: Food Service and Athletic Funds.

Debt Retirement Fund

The Debt Retirement Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Fund

The Capital Projects Sinking Fund records capital project activities funded with Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of §1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The District's fiduciary funds consist of agency funds which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are used to account for amount held for student and employee groups.

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Accrual

Governmental activity in the government-wide financial statements is presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

SUTTONS BAY PUBLIC SCHOOLS - SUTTONS BAY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS (Continued)

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within 60 days of year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt is recognized when due.

Those revenues susceptible to accrual are property taxes, state aid, interest revenue, grants and charges for services. Other revenue is recorded when received.

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the District receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

D) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40 *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury, certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by no less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

E) PREPAID ASSETS

Payments made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

F) INVENTORY

On government-wide financial statements are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. Inventory in governmental funds consists of expendable supplies held for consumption.

SUTTONS BAY PUBLIC SCHOOLS - SUTTONS BAY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G) CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities</u> <u>Estimated Lives</u>
Buildings and Improvements	20 – 50 years
Furniture and Equipment	5 – 10 years
Vehicles and Buses	5 years

H) INTERFUND BALANCES

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities columns of the statement of net assets.

I) COMPENSATED ABSENCES

The School District reports compensated absences in accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences.” Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District’s past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts, if any, are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

J) ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

SUTTONS BAY PUBLIC SCHOOLS - SUTTONS BAY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J) ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS (Continued)

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

K) FUND BALANCE RESERVES

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories.

L) NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

M) ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

N) BUDGETARY DATA

The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established by the Board of Education at the function level. Any budgetary modifications may only be made by resolution of the Board of Education.

The School District follows these procedures in establishing the budgets for the individual funds as reflected in the financial statements.

- 1) Prior to June 30, the Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1.
- 2) A public hearing is conducted during June to obtain taxpayer comments.
- 3) Prior to June 30, the budget is legally enacted through passage of a resolution.
- 4) For purposes of meeting emergency needs of the School District, transfer of appropriations may be made by the authorization of the Superintendent. Such transfers of appropriations must be approved by the Board of Education at its next regularly scheduled meeting.

SUTTONS BAY PUBLIC SCHOOLS - SUTTONS BAY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N) BUDGETARY DATA (Continued)

- 5) The School Superintendent is charged with general supervision of the budget and shall hold the department heads responsible for performance of their responsibilities.
- 6) During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.

3) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – BUDGET VIOLATIONS

1968 PA 2 provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the School District's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the School District for these budgetary funds were adopted to the functional level.

4) DEPOSITS AND INVESTMENTS

As of June 30, 2006, the District had the following investments.

Investment Type	Fair value	Weighted Average Maturity (Years)	Standard & Poor's Rating	Portfolio %
MILAF External Investment Pool - MICMS	\$ 161	0.0027	AAAm	0.03%
MILAF External Investment Pool - MIMAX	601,680	0.0027	AAAm	99.97%
Total fair value	<u>\$ 601,841</u>			<u>100.00%</u>
Portfolio weighted average maturity		<u>0.0027</u>		

1 day maturity equals 0.0027, one year equals 1.00.

The District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pool investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of "qualified investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2006, the fair value of the District's investments is the same as the value of the pool shares.

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

SUTTONS BAY PUBLIC SCHOOLS - SUTTONS BAY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

4) DEPOSITS AND INVESTMENTS (Continued)

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2006, the District's investment in the investment pool was rated AAA by Standards & Poor's and AAA by Moody's Investors Service. The District's investments in commercial paper were rated A1 by Standard & Poor's, F-1 by Fitch Ratings, and P-1 by Moody's Investors Service. The District's investments in corporate bonds were rated AAA by Standard & Poor's and Fitch Ratings, and AAA by Moody's Investors Service.

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. More than 5% of the District's investments are in pooled investment accounts which represents 100% of the District's total investments.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2006, \$492,409 of the District's bank balance of \$1,024,722 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

The above amounts as previously report in Note 4:

Deposits – Including Fiduciary Funds of \$216,513	\$ 713,538
Investments	<u>601,841</u>
<u>TOTAL</u>	<u>\$ 1,315,379</u>

The above amounts are reported in the financial statements as follows:

Cash Private Purpose Trust Fund	\$ 402
Cash Agency Fund	216,111
Cash – District Wide	497,025
Investments – District Wide	<u>601,841</u>
<u>TOTAL</u>	<u>\$ 1,315,379</u>

5) PROPERTY TAXES

The School District levies its property taxes on December 1 and various municipalities collect its property taxes and remit them to the District through February. The delinquent real property taxes of the District are purchased by the County, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The county sells tax notes, the proceeds of which have been used to pay the District for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

SUTTONS BAY PUBLIC SCHOOLS - SUTTONS BAY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

6) RECEIVABLES

Receivables at June 30, 2006, consist of taxes, accounts (fees), intergovernmental grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables (due from other governmental units) follows:

<u>GOVERNMENTAL ACTIVITIES</u>	<u>AMOUNT</u>
State Aid	\$ 891,322
Federal Grants	4,432
<u>TOTAL</u>	<u>\$ 895,754.</u>

7) UNEMPLOYMENT COMPENSATION

The District is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the District must reimburse the Employment Commission for all benefits charged against the District for the year. As of June 30, 2006, the District had \$7,110 of estimated claims payable in conjunction with the program.

8) SHORT-TERM DEBT

The District has various options for short-term financing including tax anticipation notes, state aid anticipation notes and lines of credit. The District entered into no short-term financing arrangements during the fiscal year ended June 30, 2006.

9) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	<u>BALANCE</u> <u>JULY 1, 2005</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE</u> <u>JUNE 30, 2006</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
Buildings and Improvements	\$14,686,291	\$0	\$0	\$14,686,291
Land Improvements	280,138	0	0	280,138
Equipment and Furniture	351,337	0	0	351,337
Vehicles	841,302	0	0	841,302
Totals at Historical Cost	\$16,159,068	\$0	\$0	\$16,159,068
Less: Accumulated Depreciation				
Buildings and Improvements	(3,616,047)	(294,443)	0	(3,910,490)
Land Improvements	(156,145)	(12,109)	0	(168,254)
Equipment and Furniture	(272,867)	(18,891)	0	(291,758)
Vehicles	(479,586)	(67,665)	0	(547,251)
Total Accumulated Depreciation	<u>(\$4,524,645)</u>	<u>(\$393,108)</u>	<u>\$0</u>	<u>(\$4,917,753)</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
<u>CAPITAL ASSETS - NET</u>	<u>\$11,634,423</u>	<u>(\$393,108)</u>	<u>\$0</u>	<u>\$11,241,315</u>

SUTTONS BAY PUBLIC SCHOOLS - SUTTONS BAY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

9) CAPITAL ASSETS (Continued)

Depreciation expense, when appropriate, was allocated to governmental functions. Depreciation expense that was not allocated appears on the statement of activities as "unallocated". Depreciation was recorded on the statement of activities as follows:

Instruction	\$ 4,830
Support Services	79,973
Food Service	581
Athletics	11,282
Unallocated	<u>296,442</u>
 <u>TOTAL DEPRECIATION EXPENSE</u>	 <u>\$ 393,108</u>

11) GENERAL LONG-TERM DEBT

A) CROSS-OVER ADVANCE REFUNDING

On December 30, 1998, the District issued \$7,300,000 in general obligation refunding bonds with an average coupon interest rate of 4.19587 percent, together with funds on hand in the amount of \$39,334 from the 1995 Debt Retirement Fund, to advance refund of \$6,735,000 outstanding 1995 General Obligation Serial Bonds dated May 8, 1995 with an average coupon interest rate of 5.415294 percent.

As of June 30, 2006, \$5,045,000 of the defeased debt remained outstanding in the custody of the escrow agent.

B) GENERAL OBLIGATION BONDS PAYABLE

Suttons Bay Public Schools issued general obligation, capital appreciation and current interest bonds on August 28, 1991, December 30, 1998 and November 8, 2000. The balances at June 30, 2006 are \$180,911, \$5,760,000, and \$620,000 respectively.

C) 2005 REFUNDING BONDS

On August 2, 2005, the Suttons Bay Public Schools issued \$5,095,000 in General Obligation – Unlimited Tax Bonds with an average interest ranging from of 4.0% to 5.0%. The District issued the bonds to advance refund \$5,105,000 of the outstanding 2000 Bond Issue with a interest rate ranging from 5.05% to 5.10%. The net proceeds were deposited with an escrow agent and used to purchase U.S. Government Securities. These securities will provide for part of the future debt service on the 2000 Bonds. As a result, a portion of the 2000 Bond Issue are considered defeased and the District has removed the liability from its accounts. The outstanding principal of the defeased bonds is \$5,105,000 at June 30, 2006.

The advanced refunding reduced total debt service payments over the next ten years by \$231,731. This results in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$139,684. The balance of the 2005 Refunding Bonds as of June 30, 2006 was \$5,095,000.

D) CONTRACTS PAYABLE

Contracts payable consisted of the following at June 30, 2006:

3.04% note to Fifth Third Bank, \$1,978 payments monthly, plus interest, collateralized by 2 buses.	\$ 69,784
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SUTTONS BAY PUBLIC SCHOOLS - SUTTONS BAY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

11) GENERAL LONG-TERM DEBT (Continued)

D) ANNUAL PRINCIPAL REQUIREMENTS

The annual principal requirements for all debts outstanding as of June 30, 2006 are as follows:

	CONTRACTS PAYABLE	BONDS PAYABLE	INTEREST	TOTAL
June 30, 2007	\$21,921	\$990,911	\$608,332	\$1,621,164
June 30, 2008	22,597	1,125,000	484,027	1,631,624
June 30, 2009	23,293	1,170,000	435,383	1,628,676
June 30, 2010	1,973	1,220,000	385,083	1,607,056
June 30, 2011	0	1,275,000	332,180	1,607,180
June 30, 2012-2016	0	5,875,000	800,055	6,675,055
<u>TOTAL</u>	<u>\$69,784</u>	<u>\$11,655,911</u>	<u>\$3,045,060</u>	<u>\$14,770,755</u>

The payment dates of sick days payable is undeterminable. The interest expenditures on long-term obligations for the year were \$655,095.

E) CHANGES IN GENERAL LONG-TERM DEBT

	BALANCE JULY 1, 2005	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2006	AMOUNT DUE IN ONE YEAR
<u>Governmental Activities:</u>					
General Obligation Bonds	\$12,593,927	\$5,095,000	\$6,033,016	\$11,655,911	\$990,911
Contracts & Loan Payable	296,467	0	226,683	69,784	21,921
Sick Days Payable	13,554	48,356	0	61,910	0
<u>Total Governmental Activities</u>	<u>\$12,903,948</u>	<u>\$5,143,356</u>	<u>\$6,259,699</u>	<u>\$11,787,605</u>	<u>\$1,012,832</u>

12) INTERFUND ACTIVITY

Interfund balances at June 30, 2006 consisted of the following:

	DUE FROM
	GENERAL FUND
<u>DUE TO</u>	
Athletics	<u>\$3,020</u>

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

SUTTONS BAY PUBLIC SCHOOLS - SUTTONS BAY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

13) INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2006, consisted of the following:

TRANSFERS TO	TRANSFERS FROM	
		GENERAL FUND
	Athletics Fund	\$195,484

These transfers were made to subsidize the cost of services for athletics.

14) DEFINED BENEFIT PENSION PLAN

Plan Description

The School District participates in the Michigan Public School Employees' Retirement System (MPSERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The MPSERS provides retirement, survivor and disability benefits to plan members and their beneficiaries. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for the MPSERS. That report may be obtained by writing to the MPSERS at 7150 Harris Drive, PO Box 30673, Lansing, MI 48909-8103.

Funding Policy

Employer contributions to the MPSERS result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rate totals 14.87 percent for the period July 1, 2005 through September 30, 2005 and 16.34 percent for the period October 1, 2005 through June 30, 2006 of the covered payroll to the plan. Basic plan members make no contributions, but contribute to a member investment plan (MIP) at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's contributions to the MPSERS pension plan for the years ended June 30, 2006, 2005 and 2004 were \$960,102, \$708,649 and \$649,787, respectively.

Postemployment Benefits

Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverages. Required contributions for postemployment health care benefits are included as part of the School District's total contribution to the MPSERS pension plan discussed above.

16) RISK MANAGEMENT

The District is exposed to various risks of loss in conducting its operations, from property and casualty theft, damage to various tort and liability claims and workman's compensation claims. The District limits its exposure to such claims through its participation in and payments of premiums to SET-SEG, Inc. Insurance Trust. This pool maintains a loss fund and is also required by the terms of the participation agreement to obtain insurance and reinsurance as necessary.

SUTTONS BAY PUBLIC SCHOOLS - SUTTONS BAY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

16) RISK MANAGEMENT

The terms of the participation agreement with the pool indicate that, should losses of the pool incurred in a given coverage period exceed the loss fund and the aggregate excess reinsurance, the fund may access its member districts on a pro-rata basis to cover excess losses. In past years the loss fund has exceeded the amount necessary to maintain prudent loss reserves, resulting in annual premium refunds to member districts. The District's management believes that participation in this pool provides sufficient coverage to protect the District from any significant adverse financial impact.

17) CONTINGENCIES AND COMMITMENTS

The District participates in a number of federally assisted grant programs, principal of which is the Impact Aid grant. This program is subject to program compliance audit. The audit of this program for and including the year ended June 30, 2006, has been conducted and has been reported in this audit report. However, the compliance audit reports have not yet been accepted by the grantors. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time; although the District expects such amounts, if any, to be immaterial.

OTHER SUPPLEMENTAL
INFORMATION

SUTTONS BAY PUBLIC SCHOOLS - SUTTONS BAY, MICHIGAN
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
AS OF JUNE 30, 2006

	Special Revenue Fund	Debt Service Fund	Sinking Capital Projects Fund	Total Other Governmental Funds
<u>ASSETS</u>				
Cash and Cash Equivalents	\$31,361	\$187,930	\$144,383	\$363,674
Accounts Receivable	357	0	0	357
Due from Other Governmental Units	2,013	0	0	2,013
Inventory	1,460	0	0	1,460
<u>TOTAL ASSETS</u>	<u>\$35,191</u>	<u>\$187,930</u>	<u>\$144,383</u>	<u>\$367,504</u>
<u>LIABILITIES</u>				
Accounts Payable	\$15,648	\$0	\$0	\$15,648
Due to Other Funds	3,020	0	0	3,020
Deferred Revenue	792	0	0	792
Total Liabilities	\$19,460	\$0	\$0	\$19,460
<u>FUND BALANCES</u>				
Reserved For:				
Inventory	1,460	0	0	1,460
Debt Retirement	0	187,930	0	187,930
Capital Projects	0	0	144,383	144,383
Unreserved:				
Undesignated, Reported In:				
School Service Fund	14,271	0	0	14,271
Total Fund Balances	\$15,731	\$187,930	\$144,383	\$348,044
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$35,191</u>	<u>\$187,930</u>	<u>\$144,383</u>	<u>\$367,504</u>

SUTTONS BAY PUBLIC SCHOOLS - SUTTONS BAY, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Special Revenue Fund	Debt Service Fund	Sinking Capital Projects Fund	Total Other Governmental Funds
<u>REVENUES</u>				
Local Sources	\$228,414	\$1,619,946	\$85,211	\$1,933,571
State Sources	10,742	0	0	10,742
Federal Sources	137,635	0	0	137,635
Total Revenues	<u>\$376,791</u>	<u>\$1,619,946</u>	<u>\$85,211</u>	<u>\$2,081,948</u>
<u>OTHER FINANCING SOURCES (USES)</u>	<u>195,484</u>	<u>0</u>	<u>0</u>	<u>195,484</u>
Total Revenues & Other Financing Sources	<u>\$572,275</u>	<u>\$1,619,946</u>	<u>\$85,211</u>	<u>\$2,277,432</u>
<u>EXPENDITURES</u>				
Food Service	578,716	0	0	578,716
Debt Service	0	1,572,301	0	1,572,301
Capital Projects				
Capital Outlay	0	0	33,454	33,454
Total Expenditures	<u>\$578,716</u>	<u>\$1,572,301</u>	<u>\$33,454</u>	<u>\$2,184,471</u>
Net Change in Fund Balance	<u>(\$6,441)</u>	<u>\$47,645</u>	<u>\$51,757</u>	<u>\$92,961</u>
<u>NET ASSETS - BEGINNING</u>	<u>22,172</u>	<u>140,285</u>	<u>92,626</u>	<u>255,083</u>
<u>NET ASSETS - ENDING</u>	<u>\$15,731</u>	<u>\$187,930</u>	<u>\$144,383</u>	<u>\$348,044</u>

SUTTONS BAY PUBLIC SCHOOLS - SUTTONS BAY, MICHIGAN
SPECIAL REVENUE FUND
COMBINING BALANCE SHEET
AS OF JUNE 30, 2006

	<u>FOOD SERVICES</u>	<u>ATHLETIC ACTIVITIES</u>	<u>TOTALS</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$20,127	\$11,234	\$31,361
Accounts Receivable	340	17	357
Due from Other Governmental Units	2,013	0	2,013
Inventory	<u>1,460</u>	<u>0</u>	<u>1,460</u>
<u>TOTAL ASSETS</u>	<u>\$23,940</u>	<u>\$11,251</u>	<u>\$35,191</u>
<u>LIABILITIES</u>			
Accounts Payable	\$7,417	\$8,231	\$15,648
Due to Other Funds	0	3,020	3,020
Deferred Revenue	<u>792</u>	<u>0</u>	<u>792</u>
Total Liabilities	\$8,209	\$11,251	\$19,460
<u>FUND EQUITY</u>			
Reserved for Inventory	1,460	0	1,460
Unreserved and Undesignated	<u>14,271</u>	<u>0</u>	<u>14,271</u>
Total Fund Equity	\$15,731	\$0	\$15,731
<u>TOTAL LIABILITIES AND FUND EQUITY</u>	<u>\$23,940</u>	<u>\$11,251</u>	<u>\$35,191</u>

SUTTONS BAY PUBLIC SCHOOLS - SUTTONS BAY, MICHIGAN
SPECIAL REVENUE FUND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2006

<u>REVENUES</u>	<u>FOOD SERVICES</u>	<u>ATHLETIC ACTIVITIES</u>	<u>TOTALS</u>
<u>Local Sources</u>			
Cafeteria Sales	\$136,212	\$0	\$136,212
Athletic Activities	0	84,349	84,349
Earnings on Investments and Deposits	844	1,217	2,061
Other Local Revenues	0	5,792	5,792
Total Local Sources	<u>\$137,056</u>	<u>\$91,358</u>	<u>\$228,414</u>
<u>State Sources</u>			
State Reimbursements	10,742	0	10,742
<u>Federal Sources</u>			
Federal Reimbursements	123,065	0	123,065
Commodities	14,570	0	14,570
Total Federal Sources	<u>\$137,635</u>	<u>\$0</u>	<u>\$137,635</u>
Total Revenues	<u>\$285,433</u>	<u>\$91,358</u>	<u>\$376,791</u>
<u>OTHER FINANCING SOURCES</u>			
Transfer from General Fund	0	195,484	195,484
Total Revenues and Other Financing Sources	<u>\$285,433</u>	<u>\$286,842</u>	<u>\$572,275</u>
<u>EXPENDITURES</u>			
Salaries - Professional	25,772	33,782	59,554
Salaries - Non-Professional	80,493	110,207	190,700
Insurances	18,436	9,198	27,634
Fica, Retirement, Etc.	25,997	34,708	60,705
Other Benefits	7,763	2,909	10,672
Purchased Services	11,275	22,937	34,212
Supplies and Materials	111,672	37,290	148,962
Capital Outlay	7,343	633	7,976
Other	3,123	35,178	38,301
Total Expenditures	<u>\$291,874</u>	<u>\$286,842</u>	<u>\$578,716</u>
<u>EXCESS REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES</u>	<u>(\$6,441)</u>	<u>\$0</u>	<u>(\$6,441)</u>
<u>FUND BALANCE - BEGINNING OF YEAR</u>	<u>22,172</u>	<u>0</u>	<u>\$22,172</u>
<u>FUND BALANCE - END OF YEAR</u>	<u>\$15,731</u>	<u>\$0</u>	<u>\$15,731</u>

SUTTONS BAY PUBLIC SCHOOLS - SUTTONS BAY, MICHIGAN
DEBT RETIREMENT FUND
COMBINING BALANCE SHEET
FOR THE YEAR ENDED JUNE 30, 2006

	<u>2000</u>	<u>1991</u>	<u>1995</u>	<u>2005</u>	<u>Total After Interfund Eliminations</u>
<u>ASSETS</u>					
Cash and Cash Equivalents	<u>\$15,040</u>	<u>\$71,191</u>	<u>\$86,041</u>	<u>\$15,658</u>	<u>\$187,930</u>
<u>TOTAL ASSETS</u>	<u>\$15,040</u>	<u>\$71,191</u>	<u>\$86,041</u>	<u>\$15,658</u>	<u>\$187,930</u>
<u>FUND EQUITY</u>					
Reserved - Debt Retirement	<u>\$15,040</u>	<u>\$71,191</u>	<u>\$86,041</u>	<u>\$15,658</u>	<u>\$187,930</u>

SUTTONS BAY PUBLIC SCHOOLS - SUTTONS BAY, MICHIGAN
DEBT RETIREMENT FUND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2006

	<u>2000</u>	<u>1991</u>	<u>1995</u>	<u>2005</u>	<u>Total After Interfund Eliminations</u>
<u>REVENUES</u>					
<u>Local Sources</u>					
Property Taxes	\$190,135	\$285,204	\$918,742	\$190,135	\$1,584,216
Earnings on Investments and Deposits	4,012	7,840	20,462	3,321	35,635
Other Local Revenue	0	0	95	0	95
Total Local Sources	<u>\$194,147</u>	<u>\$293,044</u>	<u>\$939,299</u>	<u>\$193,456</u>	<u>\$1,619,946</u>
 <u>EXPENDITURES</u>					
Redemption of Bond Principal	140,000	173,016	615,000	0	928,016
Interest on Bonded Debt	100,430	97,734	268,323	177,798	644,285
Total Expenditures	<u>\$240,430</u>	<u>\$270,750</u>	<u>\$883,323</u>	<u>\$177,798</u>	<u>\$1,572,301</u>
 <u>EXCESS REVENUES OVER (UNDER)</u>					
<u>EXPENDITURES</u>	<u>(\$46,283)</u>	<u>\$22,294</u>	<u>\$55,976</u>	<u>\$15,658</u>	<u>\$47,645</u>
 <u>FUND BALANCE - BEGINNING OF YEAR</u>	<u>\$61,323</u>	<u>\$48,897</u>	<u>\$30,065</u>	<u>\$0</u>	<u>\$140,285</u>
 <u>FUND BALANCE - END OF YEAR</u>	<u>\$15,040</u>	<u>\$71,191</u>	<u>\$86,041</u>	<u>\$15,658</u>	<u>\$187,930</u>

INDIVIDUAL FUND SCHEDULES OF
REVENUES, EXPENDITURES AND
OTHER FINANCING USES

SUTTONS BAY PUBLIC SCHOOLS - SUTTONS BAY, MICHIGAN
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
FOR THE YEAR ENDED JUNE 30, 2006

REVENUES FROM
Local Sources

Property Tax Levy	\$2,070,497
Fee - Drivers Education	24,543
Fee - Transportation	2,240
Earnings on Investments and Deposits	65,581
Kids Club	46,555
Montessori Primary Tuition	32,001
Montessori Primary Child Care	3,873
Montessori Toddler Program	28,627
Migrant Program Rent	22,989
Medicaid	90,478
Miscellaneous Revenue	68,217
Total Revenues from Local Sources	<u>\$2,455,601</u>

Intermediate Sources

2% Money	119,033
N-O-T Tobacco Grant	449
Total Revenues from Intermediate Sources	<u>\$119,482</u>

State Sources

State Aid	4,331,610
Special Education - Headlee	292,620
At Risk	159,734
Bilingual Education	2,349
MI School Readiness	105,600
Adult Education Participants	4,259
Other State Grants	25,939
Total Revenues from State Sources	<u>\$4,922,111</u>

Federal Sources

Indian Education	50,751
Improving Teacher Quality	52,413
Title I	145,214
Title V	406
Technology Literacy	2,768
Impact Aid	465,517
Special Education	2,400
Safe & Drug Free Schools	5,402
Nutrition Grant	64
Grants from ISD	33,531
Total Revenues from Federal Sources	<u>\$758,466</u>
Total Revenues	<u>\$8,255,660</u>

OTHER FINANCING SOURCES

Other Transfers	13,470
Transfers from Other Governmental Units	93,882
Total Other Financing Sources	<u>\$107,352</u>

<u>TOTAL REVENUES AND OTHER FINANCING SOURCES</u>	<u>\$8,363,012</u>
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SUTTONS BAY PUBLIC SCHOOLS - SUTTONS BAY, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2006

INSTRUCTIONBASIC PROGRAMSElementary

Salaries - Professional	\$1,045,747
Salaries - Non-Professional	40,308
Insurance	269,557
Fica, Retirement, Etc.	257,973
Other Benefits	24,147
Purchased Services	11,848
Supplies & Materials	21,082
Other	304
Total Elementary	<u>\$1,670,966</u>

Middle School

Salaries - Professional	620,595
Salaries - Non-Professional	10,740
Insurance	178,390
Fica, Retirement, Etc.	152,245
Other Benefits	9,542
Purchased Services	12,012
Supplies & Materials	15,804
Total Middle School	<u>\$999,328</u>

High School

Salaries - Professional	785,482
Salaries - Non-Professional	27,170
Insurance	148,851
Fica, Retirement, Etc.	196,527
Other Benefits	33,792
Purchased Services	16,786
Supplies & Materials	38,587
Capital Outlay	928
Other	1,164
Total High School	<u>\$1,249,287</u>

Preschool

Salaries - Professional	60,614
Salaries - Non-Professional	4,595
Insurance	137
Fica, Retirement, Etc.	15,529
Other Benefits	8,382
Purchased Services	399
Supplies & Materials	13,660
Total Preschool	<u>\$103,316</u>

Total Basic Programs

\$4,022,897

SUTTONS BAY PUBLIC SCHOOLS - SUTTONS BAY, MICHIGAN

GENERAL FUND

SCHEDULE OF EXPENDITURES

FOR THE YEAR ENDED JUNE 30, 2006

INSTRUCTION (Continued)ADDED NEEDSSpecial Education

Salaries - Professional	\$429,083
Salaries - Non-Professional	31,667
Insurance	96,519
Fica, Retirement, Etc.	110,711
Other Benefits	9,377
Purchased Services	75
Supplies & Materials	9,888
Total Special Education	<u>\$687,320</u>

Compensatory Education

Salaries - Professional	90,387
Salaries - Non-Professional	75,014
Insurance	19,945
Fica, Retirement, Etc.	35,172
Other Benefits	3,071
Purchased Services	5,220
Supplies & Materials	12,656
Other	4,757
Total Compensatory Education	<u>\$246,222</u>

<u>Total Added Needs</u>	\$933,542
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ADULT EDUCATION

Salaries - Professional	2,854
Fica, Retirement, Etc.	672
Total Adult Education	<u>\$3,526</u>

<u>Total Instruction</u>	\$4,959,965
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SUPPORT SERVICESStudent Services

Salaries - Professional	248,731
Salaries - Non-Professional	45,040
Insurance	69,023
Fica, Retirement, Etc.	70,436
Other Benefits	2,496
Purchased Services	1,386
Supplies & Materials	6,793
Other	241
Total Student Services	<u>\$444,146</u>

SUTTONS BAY PUBLIC SCHOOLS - SUTTONS BAY, MICHIGAN

GENERAL FUND

SCHEDULE OF EXPENDITURES

FOR THE YEAR ENDED JUNE 30, 2006

SUPPORT SERVICES (Continued)Instructional Staff

Salaries - Professional	\$114,305
Salaries - Non-Professional	21,136
Insurance	18,366
Fica, Retirement, Etc.	32,965
Other Benefits	6,259
Purchased Services	29,443
Supplies & Materials	8,114
Other	3,562
Total Instructional Staff	<u>\$234,150</u>

General Administration

Salaries - Professional	70,485
Salaries - Non-Professional	17,023
Insurance	15,048
Fica, Retirement, Etc.	19,392
Purchased Services	72,825
Supplies & Materials	4,101
Other	3,600
Total General Administration	<u>\$202,474</u>

School Administration

Salaries - Professional	243,932
Salaries - Non-Professional	144,319
Insurance	98,176
Fica, Retirement, Etc.	91,231
Other Benefits	14,125
Purchased Services	9,925
Supplies & Materials	6,376
Other	2,800
Total School Administration	<u>\$610,884</u>

Business Administration

Salaries - Non-Professional	88,549
Insurance	2,050
Fica, Retirement, Etc.	36,394
Other Benefits	10,388
Purchased Services	42,598
Supplies & Materials	62
Other	3,667
Total Business Administration	<u>\$183,708</u>

SUTTONS BAY PUBLIC SCHOOLS - SUTTONS BAY, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2006

SUPPORT SERVICES (Continued)

Operation & Maintenance of Plant

Salaries - Non-Professional	\$216,110
Insurance	66,256
Fica, Retirement, Etc.	52,494
Other Benefits	1,693
Purchased Services	147,630
Supplies & Materials	286,053
Capital Outlay	3,565
Other	104
Total Operation & Maintenance of Plant	<u>\$773,905</u>

Pupil Transportation

Salaries - Professional	12,231
Salaries - Non-Professional	236,311
Insurance	16,698
Fica, Retirement, Etc.	55,883
Other Benefits	14,481
Purchased Services	15,001
Supplies & Materials	70,285
Capital Outlay	34,997
Other	2,958
Total Pupil Transportation	<u>\$458,845</u>

Other Support Services

Salaries - Non-Professional	80,128
Insurance	14,177
Fica, Retirement, Etc.	18,947
Other Benefits	508
Purchased Services	67,665
Supplies & Materials	11,831
Capital Outlay	14,828
Total Other Support Services	<u>\$208,084</u>

Total Support Services

\$3,116,196

COMMUNITY SERVICES

Salaries - Professional	20,271
Salaries - Non-Professional	43,063
Insurance	6,278
Fica, Retirement, Etc.	15,023
Other Benefits	2,266
Purchased Services	56,408
Supplies & Materials	6,726
Other	231
Total Community Services	<u>\$150,266</u>

TOTAL EXPENDITURES

\$8,226,427

SUTTONS BAY PUBLIC SCHOOLS - SUTTONS BAY, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2006

<u>OTHER FINANCING USES</u>	
Transfers to Athletic Fund	\$195,484
Other Transfers	1,200
Transfers to Other Districts	81,159
Total Other Financing Uses	<u>\$277,843</u>
<u>TOTAL EXPENDITURES AND OTHER FINANCING USES</u>	<u>\$8,504,270</u>

SUTTONS BAY PUBLIC SCHOOLS - SUTTONS BAY, MICHIGAN
TRUST AND AGENCY FUND
SCHEDULE OF RECEIPTS AND DISBURSEMENTS -
STUDENT ACTIVITY ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2006

STUDENT ACTIVITY	DUE TO (FROM) STUDENT GROUPS		DUE TO (FROM) STUDENT GROUPS	
	JULY 1, 2005	RECEIPTS	DISBURSEMENTS	JUNE 30, 2006
2% Allocation Grant	\$126,306	\$4,140	\$0	\$130,446
A/P Administrative	202	3,487	3,265	424
A/P Art	2,170	10,095	9,770	2,495
Academic Boosters Club	2,576	6,147	8,132	591
BPA	1,441	5,566	5,834	1,173
Class of 2005	290	1	291	0
Class of 2006	1,404	41	1,203	242
Class of 2007	2,981	3,187	3,417	2,751
Class of 2008	1,077	1,686	546	2,217
Class of 2009	0	3,187	1,556	1,631
Dramatics	2,802	9,184	5,295	6,691
Elementary Carnival	6,155	37,543	34,626	9,072
Friends of Fine Arts	8,252	35,941	38,655	5,538
Health and Foods	323	6	21	308
Helping Hands	570	2,020	2,065	525
Lock Deposits	204	288	240	252
Middle School	15,536	47,315	54,650	8,201
Music	794	3,056	2,943	907
National Honor Society	579	3,787	4,049	317
Outdoor Adventure Club	218	1,599	1,600	217
Parent-Teacher Organization	4,512	20,555	10,380	14,687
Physics	46	1	4	43
Project Hero	374	5,827	5,450	751
Senior Graduation Party	565	7,517	7,551	531
Student Council-High School	4,258	7,737	9,485	2,510
Summer Recreation Program	3,007	2,541	1,110	4,438
Teachers' Projects	6,512	13,939	6,360	14,091
Wood Technology	652	404	377	679
Yearbook-High School	1,397	4,740	1,754	4,383
<u>TOTALS</u>	<u>\$195,203</u>	<u>\$241,537</u>	<u>\$220,629</u>	<u>\$216,111</u>

SUTTONS BAY PUBLIC SCHOOLS - SUTTONS BAY, MICHIGAN
PRIVATE PURPOSE TRUSTS
SCHEDULE OF REVENUE AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2006

	<u>BUCKESCOTT MEMORIAL FUND</u>	
<u>BALANCE - JULY 1, 2005</u>		\$1,015
<u>REVENUE</u>		
Donations		100
<u>EXPENDITURES</u>		
Scholarship Awards		<u>713</u>
<u>BALANCE - JUNE 30, 2006</u>		<u><u>\$402</u></u>

SUTTONS BAY PUBLIC SCHOOLS - SUTTONS BAY, MICHIGAN
GENERAL OBLIGATION SERIAL BONDS
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS
AS OF JUNE 30, 2006

Serial Bonds issued August 28, 1991, and outstanding as of June 30, 2006, consisted of:

CAPITAL APPRECIATION BONDS

<u>DATE OF MATURITY</u>	<u>PRINCIPAL REQUIREMENT</u>	<u>INTEREST RATE (%)</u>	<u>INTEREST REQUIREMENT</u>	<u>TOTAL DEBT REQUIREMENT</u>
May 1, 2007	\$180,911	7.20	\$89,089	\$270,000

Refunding Bonds issued December 30, 1998, and outstanding as of June 30, 2006, consisted of:

GENERAL OBLIGATION - UNLIMITED TAX BONDS

<u>DATE OF MATURITY</u>	<u>PRINCIPAL REQUIREMENT</u>	<u>INTEREST RATE (%)</u>	<u>INTEREST REQUIREMENT</u>	<u>TOTAL DEBT REQUIREMENT</u>
November 1, 2006	\$0	4.050	\$121,408	\$121,408
May 1, 2007	670,000	4.100	121,407	791,407
November 1, 2007	0	4.100	107,672	107,672
May 1, 2008	985,000	4.150	107,673	1,092,673
November 1, 2008	0	4.150	87,234	87,234
May 1, 2009	1,025,000	4.150	87,234	1,112,234
November 1, 2009	0	4.150	65,965	65,965
May 1, 2010	1,025,000	4.200	65,965	1,090,965
November 1, 2010	0	4.200	44,440	44,440
May 1, 2011	1,025,000	4.300	44,440	1,069,440
November 1, 2011	0	4.300	22,403	22,403
May 1, 2012	1,030,000	4.350	22,402	1,052,402
<u>TOTALS</u>	<u>\$5,760,000</u>		<u>\$898,243</u>	<u>\$6,658,243</u>

SUTTONS BAY PUBLIC SCHOOLS - SUTTONS BAY, MICHIGAN
GENERAL OBLIGATION SERIAL BONDS
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS
AS OF JUNE 30, 2006

2000 School Building and Site Bonds issued November 8, 2000, and outstanding as of June 30, 2006, consisted of:

GENERAL OBLIGATION - UNLIMITED TAX BONDS

<u>DATE OF MATURITY</u>	<u>PRINCIPAL REQUIREMENT</u>	<u>INTEREST RATE (%)</u>	<u>INTEREST REQUIREMENT</u>	<u>TOTAL DEBT REQUIREMENT</u>
November 1, 2006	\$0		\$15,655	\$15,655
May 1, 2007	140,000	5.050	15,655	155,655
November 1, 2007	0		12,120	12,120
May 1, 2008	140,000	5.050	12,120	152,120
November 1, 2008	0		8,585	8,585
May 1, 2009	145,000	5.050	8,585	153,585
November 1, 2009	0		4,924	4,924
May 1, 2010	195,000	5.050	4,924	199,924
<u>TOTALS</u>	<u>\$620,000</u>		<u>\$82,568</u>	<u>\$702,568</u>

2005 School Building and Site Bonds issued August 2, 2005, and outstanding as of June 30, 2006, consisted of:

2005 REFUNDING BONDS

<u>DATE OF MATURITY</u>	<u>PRINCIPAL REQUIREMENT</u>	<u>INTEREST RATE (%)</u>	<u>INTEREST REQUIREMENT</u>	<u>TOTAL DEBT REQUIREMENT</u>
November 1, 2006	\$0		\$121,650	\$121,650
May 1, 2007	0		121,650	121,650
November 1, 2007	0		121,650	121,650
May 1, 2008	0		121,650	121,650
November 1, 2008	0		121,650	121,650
May 1, 2009	0		121,650	121,650
November 1, 2009	0		121,650	121,650
May 1, 2010	0		121,650	121,650
November 1, 2010	0		121,650	121,650
May 1, 2011	250,000	5.000	121,650	371,650
November 1, 2011	0		115,400	115,400
May 1, 2012	300,000	5.000	115,400	415,400
November 1, 2012	0		107,900	107,900
May 1, 2013	1,125,000	5.000	107,900	1,232,900
November 1, 2013	0		79,775	79,775
May 1, 2014	1,125,000	5.000	79,775	1,204,775
November 1, 2014	0		51,650	51,650
May 1, 2015	1,150,000	5.000	51,650	1,201,650
November 1, 2015	0		22,900	22,900
May 1, 2016	1,145,000	4.000	22,900	1,167,900
<u>TOTAL</u>	<u>\$5,095,000</u>		<u>\$1,971,750</u>	<u>\$7,066,750</u>



July 25, 2006

To the Board of Education of
Suttons Bay Public Schools

In planning and performing our audit of the financial statements of Suttons Bay Public Schools for the year ended June 30, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect Suttons Bay Public Schools' ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

The following items that are an immaterial internal control or administrative consideration came to our attention.

CURRENT YEAR FINDINGS

1. Budgets and Budgetary Accounting

1968 PA 2, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended June 30, 2006, Suttons Bay Public Schools incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated.

FUTURE ISSUES

1. MDE Changes Enforcement of Budgeting Act

The Michigan Department of Education (MDE) recently notified all Michigan School Districts that it was implementing changes in its enforcement of the Uniform Budgeting and Accounting Act. From their perspective, MDE is making this policy change in an effort to elevate awareness of the importance of proper budgeting and the need for district procedures to be in place to detect budget violations. MDE has not aggressively pursued these violations in past years, but has stated their intention to change that policy retroactively to the 2004-05 fiscal year. For that year, the Department has indicated that they are only focusing on the General Fund and will only act upon *Total Expenditures* violations that exceed 1% of the Total Expenditures budget and *Total Other Financing Uses* violations that exceed 1% of the Total Other Financing Uses budget.

Currently identified violations of the Act include, but are not limited to:

- Incurring expenditures in excess of the appropriation approved by the school board (overspending your budget)
- Ending the fiscal year with a deficit (negative fund balance), and
- Adopting a budget that, when implemented, would put the district in a deficit.



Suttons Bay Public Schools

Page 2

July 25, 2006

FUTURE ISSUES (Continued)

- The Department is also currently considering that a violation of the Act also includes the situation where the district did not achieve their full revenue budget and, at the same time, depleted the district fund balance beyond what had been approved by the school board.

Amending your budget before June 30 of each year is the main way to avoid receiving a violation letter from the Department.

2. GASB Statement No. 45

GASB Statement No. 45 was issued in June 2004 and is effective prospectively in three phases in periods beginning after December 15, 2006. For Suttons Bay Public Schools, the effective implementation date must begin by June 30, 2008. OPEB are defined as postemployment benefits other than pensions that employees earn during their years of service but that they will not receive until after they retire. They include all postemployment healthcare benefits. They also include any other type of benefits that are provided separately from a pension plan, such as life insurance, legal services, and any other benefits that the employer may provide. OPEB exclude any non-healthcare benefits provided through a pension plan.

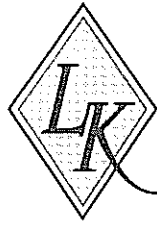
The basic premise of GASB No. 45 is that OPEB are earned and should be recognized when the employee provides services, just like wages or salaries paid at the end of each pay period. But because these benefits cannot be used until the employee is no longer working, they are not paid in cash until a date that may extend well into the future.

The District may wish to begin gathering the nonfinancial information needed to generate their first actuarial valuation of OPEB. Information that will be requested by actuaries will be similar to that used for pension benefit calculations and includes:

- * Listing of all benefits provided by the OPEB plan—as the terms are understood by the employer and the plan members. (This would be a good time to work with employees to convert unwritten/understood benefits to written policy.)
- * Past OPEB claims experience for the covered group—as far back as needed to create a “credible” experience database or as far back as data is available. (Actuaries will need to use a database for a comparable entity if the government is not able to generate its own database.)
- * Census information about individual active and inactive plan participants, including age, sex, length of service, and so forth.

3. Cash Management of Federal Grants

The advance provisions of the Cash Management Improvement Act (CMIA) requires that advances be limited to three days cash needs. The Michigan Department of Education will no longer allow thirty day cash advances for ongoing programs.



Suttons Bay Public Schools

Page 3

July 25, 2006

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

This report is intended for the information of Suttons Bay Public Schools' Board of Education and management and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Lewis & Knopf PC
LEWIS & KNOPF, P.C.

CERTIFIED PUBLIC ACCOUNTANTS